

FINANCIAL PERFORMANCE

Introduction to financial statements

The eThekweni Municipality has continued to meet its commitment to efficient service delivery with total revenue earnings of R18.9-billion. An increase of 11% on the previous year.

About 22 % of total revenue is attributable to revenue from property rates.

Revenue from property rates increased by 10% in comparison to the previous year.

And 42% of total revenue is attributable to revenue from service charges.

Revenue from Service Charges increased by 24% in comparison to the previous year.

Some 20% of total revenue is attributable to revenue from grants.

Revenue from grants decreased by 3% in comparison with the previous year.

To facilitate efficient service delivery, R2.5-billion was spent in the current financial year on infrastructure asset projects.

The net assets for the year have grown by 10% . We can all be justifiably proud of our strong balance sheet, especially in these difficult economic times.

Financial Summary							R' 000
Description	2008/2009 Actual	Current Year 2009/2010			2009/2010 Variance		
		Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget	
Financial Performance							
Property rates	3,723,618	4,317,517	4,174,473	4,093,443	-5.19%	-1.94%	
Service charges	6,327,351	8,359,333	8,270,366	7,863,974	5.93%	-4.91%	
Investment revenue	150,226	436,014	336,561	187,933	-56.90%	-44.16%	
Transfers recognised - operational	1,662,125	1,362,709	1,406,233	1,398,515	2.63%	-0.55%	
Other own revenue	3,180,003	1,759,679	1,756,934	2,982,440	69.49%	69.75%	
Employee costs	4,069,007	4,747,344	4,747,344	4,540,518	-4.36%	-4.36%	
Remuneration of councillors	69,671	67,272	67,264	73,969	9.96%	9.97%	
Depreciation & asset impairment	1,115,962	1,417,911	1,417,911	1,125,985	-20.59%	-20.59%	
Finance charges	685,984	714,423	714,423	480,942	-32.68%	-32.68%	
Materials and bulk purchases	3,649,336	4,741,255	4,667,365	4,531,944	-4.41%	-2.90%	
Transfers and grants	93,254	176,194	176,072	149,977	-14.88%	-14.82%	
Other expenditure	4,786,159	5,300,369	5,327,262	5,982,479	12.87%	12.30%	
Transfers recognised - capital	2,206,655	2,435,058	2,458,677	2,356,482	-3.23%	-4.16%	
Surplus/(Deficit) after capital transfers & contributions	2,760,605	1,505,298	1,545,395	1,996,973	32.66%	29.22%	
Contributions recognised - capital & contributed assets	-	-	-	-			
Capital expenditure & funds sources							
Capital expenditure	5,987,764	5,450,704	5,781,364	6,507,907	19.40%	12.57%	
Transfers recognised - capital	2,206,655	2,435,058	2,458,677	2,087,290	-14.28%	15.11%	
Public contributions & donations	-	-	-	-			
Borrowing	951,050	1,100,000	2,900,000	2,923,743	165.79%	0.82%	
Internally generated funds	2,830,059	1,915,646	422,687	1,496,874	21.86%	254.13%	
Total sources of capital funds	5,987,764	5,450,704	5,781,364	6,507,907			
Financial position							
Total current assets	8,256,748	9,117,964	9,022,589	8,044,743	11.88%	10.95%	
Total non-current assets	25,254,623	26,623,534	29,356,045	30,158,638	13.28%	2.73%	
Total current liabilities	(7,213,936)	(8,148,585)	(7,975,868)	(7,109,763)	-11.68%	-9.78%	
Total non-current liabilities	(7,350,252)	(7,879,771)	(9,871,094)	(10,048,230)	27.52%	1.79%	
Community wealth/Equity	18,947,183	19,713,142	20,531,671	20,949,394	6.27%	2.03%	
Cash flows							
Net cash from (used) operating	3,393,387	4,682,651	2,935,445	2,543,361	45.69%	13.36%	
Net cash from (used) investing	(4,228,031)	(5,509,334)	(5,479,095)	(3,991,096)	-27.56%	27.16%	
Net cash from (used) financing	747,537	869,146	2,690,326	2,604,365	199.65%	-3.20%	
Cash/cash equivalents at the year end	284,233	4,513,744	2,834,703	1,440,863	68.08%	49.17%	
Cash backing/surplus reconciliation							
Cash and investments available	371,340	4,543,437	2,834,703	284,233	-93.74%	-89.97%	
Application of cash and investments	(87,107)	1,469,020	186,058	1,156,630	21.27%	521.65%	
Balance - surplus (shortfall)	284,233	3,074,417	2,648,645	1,440,863	-53.13%	-45.60%	
Asset management							
Asset register summary (WDV)	23,798,790	24,844,294	27,475,279	29,020,283	16.81%	5.62%	
Renewal of Existing Assets	77,778	1,839,154	1,832,102	97,223	-94.71%	-94.69%	
Repairs and Maintenance	1,499,763	1,949,500	2,084,497	1,965,682	0.83%	-5.70%	
Free services							
Cost of Free Basic Services provided	43,426	39,269	51,562	54,880	39.75%	6.43%	
Revenue cost of free services provided	1,113,707	1,602,549	1,599,442	1,602,757	0.01%	0.21%	
Households below minimum service level							
Water	17	1	-	-			
Sanitation/ Sewerage	181	164	131	131			
Energy	342	351	337	344			
Refuse	-	-	-	-			
Variances are calculated by dividing the difference between actual and original/adjusted budget by the actual. This table is aligned to MBRR							

Financial Performance of Operational Services						
						R '000
Description	2008/2009	2009/2010			2009/2010 Variance	
	Actual	Original Budget	Adjustments Budget	Actual	Original Budget	Adjustments Budget
Operating Cost						
Water	2,037,185	2,379,547	2,575,374	2,669,202	12.17%	3.64%
Waste Water (Sanitation)	550,082	732,661	736,196	738,670	0.82%	0.34%
Electricity	3,816,298	5,502,108	5,712,056	5,303,341	-3.61%	-7.16%
Waste Management	581,619	709,403	709,403	849,205	19.71%	19.71%
Housing	1,503,380	439,502	489,983	1,605,244	265.24%	227.61%
Component A: sub-total	8,488,564	9,763,221	10,223,012	11,165,662	14.36%	9.22%
Waste Water (Stormwater Drainage)	54,651	89,674	89,686	112,070	24.97%	24.96%
Roads	735,567	966,458	1,040,985	930,422	-3.73%	-10.62%
Transport	59,996	155,450	179,826	176,659	13.64%	-1.76%
Component B: sub-total	850,214	1,211,582	1,310,497	1,219,151	0.62%	-6.97%
Planning	-	-	-	-	-	-
Local Economic Development	186,194	486,761	465,161	356,051	-26.85%	-23.46%
Component B: sub-total	186,194	486,761	465,161	356,051	-26.85%	-23.46%
Planning (Strategic & Regulatory)	201,364	294,378	297,249	245,031	-16.76%	-17.57%
Local Economic Development	-	-	-	-	-	-
Component C: sub-total	201,364	294,378	297,249	245,031	-16.76%	-17.57%
Community & Social Services	369,095	509,555	545,374	472,231	-7.32%	-13.41%
Environmental Protection	91,347	94,000	93,295	106,472	13.27%	14.12%
Health	211,695	257,298	278,261	276,190	7.34%	-0.74%
Security and Safety	743,723	834,430	791,260	864,509	3.60%	9.26%
Sport and Recreation	516,060	669,002	804,546	785,301	17.38%	-2.39%
Corporate Policy Offices and Other	2,634,319	2,842,502	2,137,470	1,460,417	-48.62%	-31.68%
Component D: sub-total	4,566,239	5,206,787	4,650,206	3,965,120	-23.85%	-14.73%
Total Expenditure	14,292,575	16,962,729	16,946,125	16,951,014	-0.07%	0.03%

GRANTS

Grant Performance						
	R' 000					
Description	2008/2009	2009/2010			2009/2010 Variance	
	Actual	Budget	Adjustment ± Budget	Actual	Original Budget (%)	Adjustment ± Budget (%)
Operating Transfers and Grants						
National Government:	1,065,338	1,118,405	1,149,689	1,149,689	2.80%	0.00%
Equitable share	897,195	1,036,764	1,068,190	1,068,190	3.03%	0.00%
Municipal Systems Improvement	-	-	-	-	0.00%	0.00%
Department of Water Affairs	488	293	151	151	-48.46%	0.00%
Local Government Financial Management	750	750	750	750	0.00%	0.00%
2010 World Cup Host City Operating Grant	-	60,000	60,000	60,000	0.00%	0.00%
Public Transport Infrastructure Grant and Systems Grant	149,250	14,040	14,040	14,040	0.00%	0.00%
Municipal Infrastructure Grant	4,186	4,990	4,990	4,990	0.00%	0.00%
Department of Local Government & Traditional Affairs	12,200	1,000	1,000	1,000	0.00%	0.00%
International World Math	1,269	520	520	520	0.00%	0.00%
Vuna Awards	0	48	48	48	0.00%	0.00%
Provincial Government:	205,630	243,233	243,233	243,233	0.00%	0.00%
Health subsidy	28,747	42,612	42,612	42,612	0.00%	0.00%
Housing	167,753	196,771	196,771	196,771	0.00%	0.00%
Department of Economic and Activities and Various Industries	0	2,085	2,085	2,085	0.00%	0.00%
District Municipality:						
<i>[insert description]</i>						
Other grant providers:	12,946	17,276	17,276	17,276	0.00%	0.00%
Public Sponsorship	4	-	-	-	0.00%	0.00%
Ecorat	216	82	82	82	0.00%	0.00%
Rockefeller Foundation	327	-	-	-	0.00%	0.00%
Danida	9,292	3,523	3,523	3,523	0.00%	0.00%
European Funding	-	1,338	1,338	1,338	0.00%	0.00%
DBSA	-	436	436	436	0.00%	0.00%
Public Contribution	-	2,782	2,782	2,782	0.00%	0.00%
LTDF Grant	47	-	-	-	0.00%	0.00%
Fire Learnership	-	2,324	2,324	2,324	0.00%	0.00%
Mondi Paper	-	6,577	6,577	6,577	0.00%	0.00%
Henvinet	43	67	67	67	0.00%	0.00%
Cifal	2,246	146	146	146	0.00%	0.00%
Acca	633	-	-	-	0.00%	0.00%
GTZ	100	-	-	-	0.00%	0.00%
National Research Foundation	40	-	-	-	0.00%	0.00%
Total Operating Transfers and Grants	1,283,914	1,378,914	1,410,198	1,410,198	0.00%	0.00%

Variances are calculated by dividing the difference between actual and original/adjustments budget by the actual.

Grants Received From Sources Other Than Division of Revenue Act (DORA)						
Details of Donor	Actual Grant 2008/2009	Actual Grant 2009/2010	2009/2010 Municipal Contribution	Date Grant terminates	Date Municipal contribution terminates	Nature and benefit from the grant received, include description of any contributions in kind
Tsogo Sun						
A - Beach Upgrade	48 476	23 000	3 073	30-Jun-10	30-Jun-11	The grant was received from Suncoast Tsogo Sun and was used at Thakwini beach upgrades in preparation for the 2010 World Cup
European Union						
A - Brook Street PH 7	474	3 909	0	30-Jun-10	N/A	and will fund expenditure in the Area Based Management Development Areas and the Programme Office over a period of five years. The purpose of the grant is to strengthen Council's capacity to provide basic services and to
B - St Georges Street Pavements	600	26	0	30-Jun-10	N/A	
			0			
Danida - Danish						
			0			
A - IWRM Infrastructure Project	214	832	0	30-Jun-10	N/A	Danish funded Urban Environment Management Grant utilised for the Infrastructure Water Resource Management in the Rural Area Based Management
B - Solar Water Heating (Electricity - under DEO)	-	1 500	0	30-Jun-10	N/A	The objective of the Malaca Road Heat Pump project is to install and test a heat pump unit as well as determine the feasibility, real world efficiency and pay-back time period
C - LED Streetlights (Electricity - under DEO)	-	5 000	0	30-Jun-11	N/A	The funds were received for the purpose of installing high quality LED streetlights to help in saving electricity, and assisting Eskom in reducing power consumption. Energy saving lights also contribute to a healthier and cleaner environment
Royal Netherlands						
			0			
A - Trenchless Technology	-	2 773	0	30-Jun-11	N/A	The objective of the Trenchless Technology project is for the servicing, rehabilitation and replacement of existing, and the construction of new public utilities and other services underground without the digging of trenches, including the development of all kinds of underground mapping techniques, tunneling devices and specialist machinery, materials and equipment
Lotto						
A - Museum	-	4 100	0	30-Jun-11	N/A	Funding to be used for the building of the Cato Manor Museum
Nature Reserve Trust Fund						
A - Nature Reservation	-	5 157	0	30-Jun-11	N/A	Funds were received from the Nature Reserve Trust Fund for purposes of upgrading conservation areas
Public Contribution						
A - Nandi Drive Developments	9 009	9 883	0	30-Jun-12	N/A	Funding for the Nandi Drive Developments and Hillcrest Roads Development

Repairs and Maintenance Expenditure				
				R' 000
	Original Budget	Adjustment Budget	Actual	Budget variance
2009/10 Repairs and Maintenance Expenditure	1,949,500	2,084,497	1,911,411	-8.30%
2008/09 Repairs and Maintenance Expen	1,622,331	1,643,299	1,499,763	-8.73%
Repairs and Maintenance Expenditure				
				R' 000
	Original Budget	Adjustment Budget	Actual	Budget variance
2007/08 Repairs and Maintenance Expen	1,308,941	1,334,445	1,218,338	-8.70%
T5.3.1				

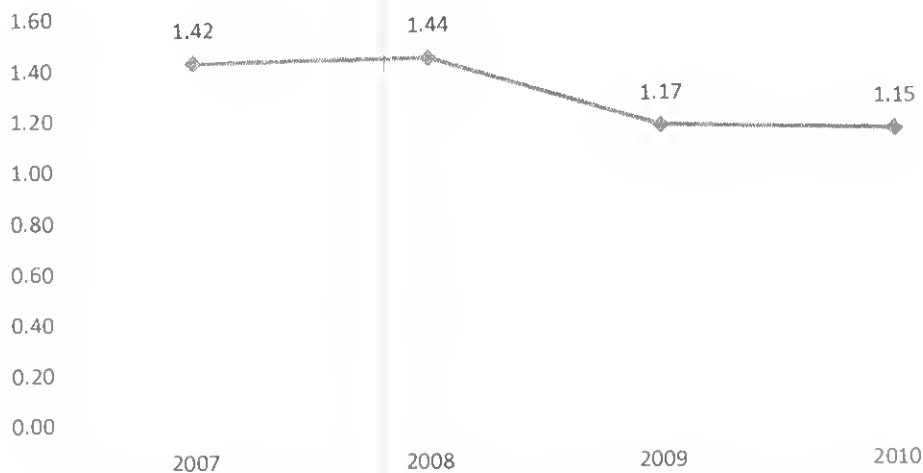
Repairs and Maintenance Expenditure 2006/07				
				R' 000
	Original Budget	Adjustment Budget	Actual	Budget variance
Repairs and Maintenance Expenditure	1,117,553	1,117,553	879,222	-21.33%

Comment on repair and maintenance expenditure

Expenditure and variances show in T5.3.1 above and on the implications of the proportion of operating budget spend on repairs and maintenance over the past four years set out below. Note that the repairs and maintenance expenditure in T5.3.1 must reconcile with the operational repairs and maintenance expenditure for all services set out in Chapter 3.

FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

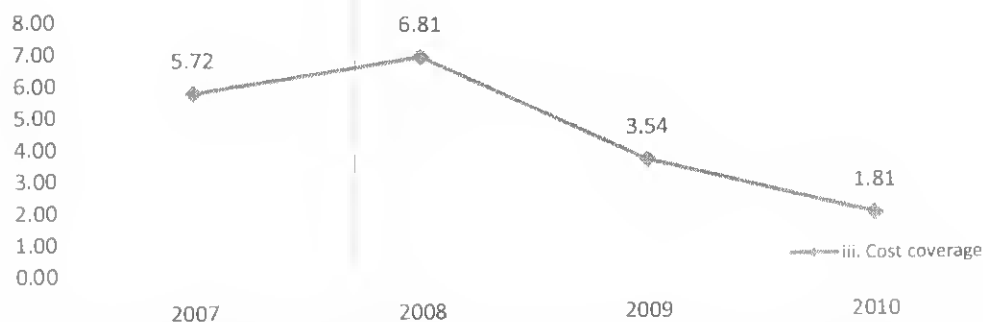
Liquidity Ratio



Liquidity Ratio: Measures the Municipality's ability to pay its bills and is calculated by dividing the monetary assets (due within one year) by the municipality's current liabilities. A higher ratio is better.

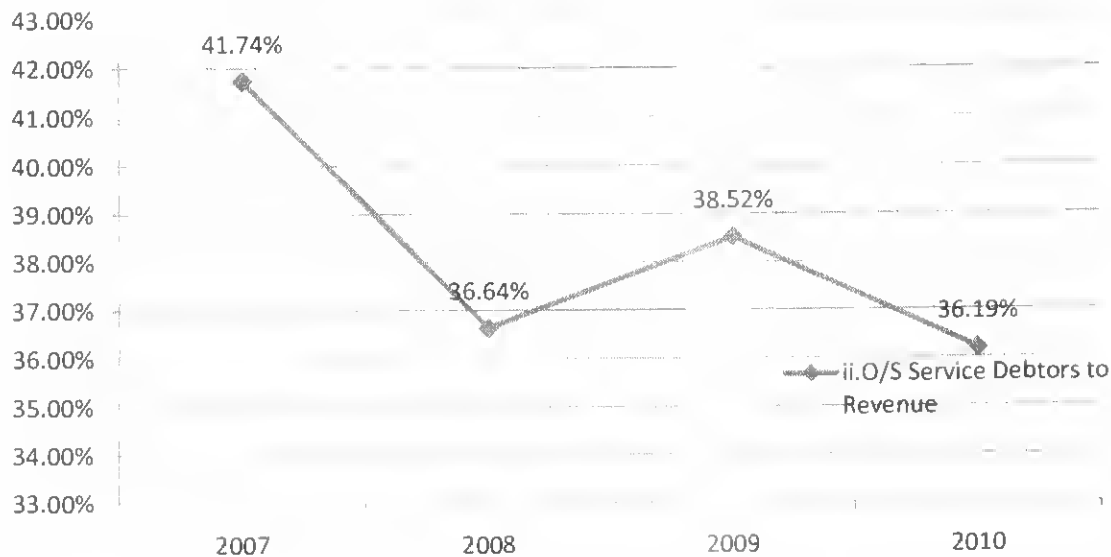
5.4.1

Cost Coverage



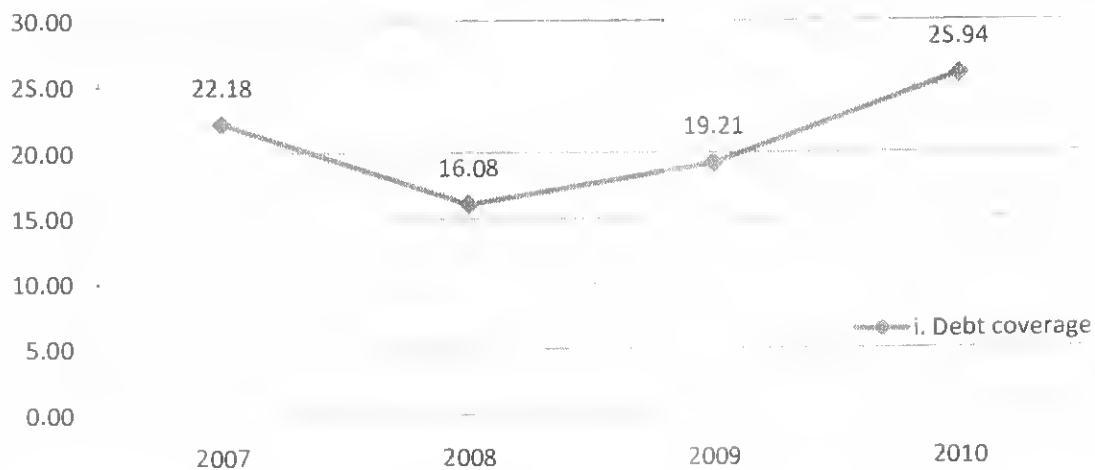
Cost Coverage: It explains how many months expenditure can be covered by the cash and other liquid assets available to the Municipality excluding utilisation of grants.

Total Outstanding Service Debtors



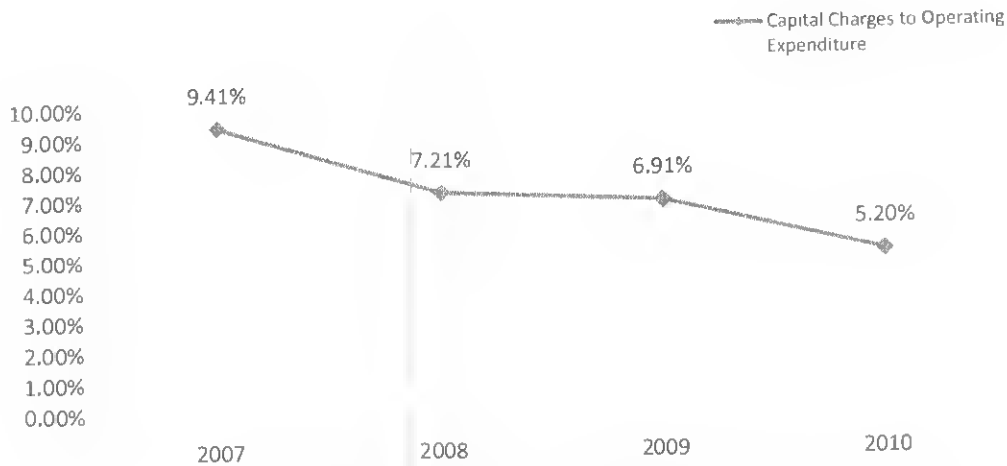
Total Outstanding Service Debtors: Measures how much money is still owed by the community for water, electricity, waste removal and sanitation compared to how much money has been paid for these services. It is calculated by dividing the total outstanding debtors by the total annual revenue. A lower score is better.

Debt Coverage



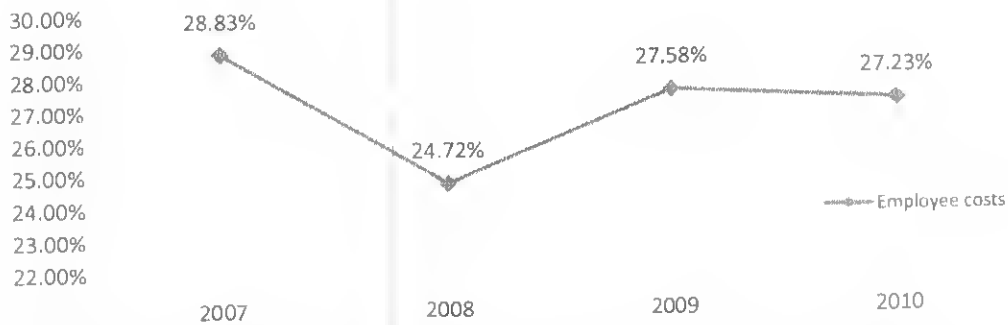
Debt Coverage: The number of times debt payments can be accommodated within operating revenue (excluding grants). This in turn represents the ease with which debt payments can be accommodated by the Municipality.

Capital Charges to Operating Expenditure

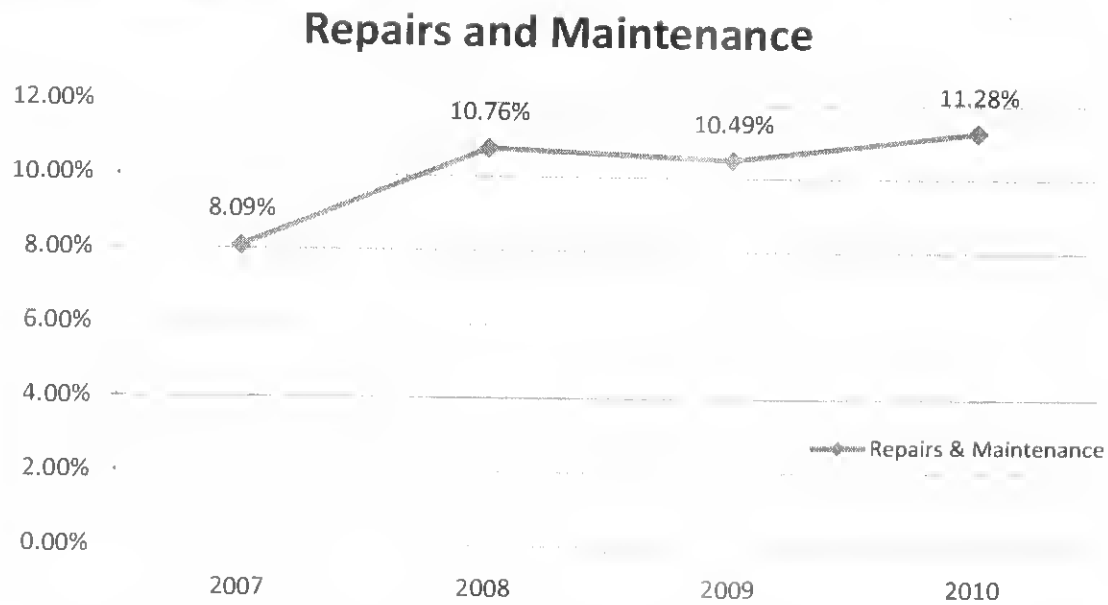


Capital Charges to Operating Expenditure ratio is calculated by dividing the sum of capital interest and principle paid by the total operating expenditure.

Employee Costs



Employee cost: Measures what portion of the revenue was spent on paying employee costs. It is calculated by dividing the total employee cost by the difference between total revenue and capital revenue.



Repairs and Maintenance: This represents the proportion of operating expenditure spent and is calculated by dividing the total repairs and maintenance.

Comment on financial ratios

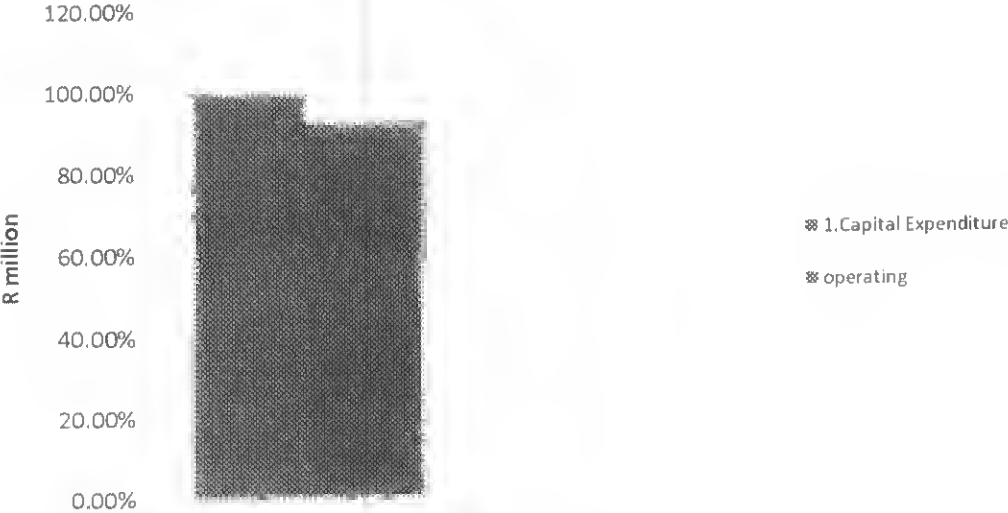
The analysis of the Municipality's financial statements over the past four years reveals the Municipality's drive to increase capital expenditure and maintain stable operating expenditure.

SPENDING AGAINST CAPITAL BUDGET

Introduction

Capital expenditure relates mainly to construction projects that will have value lasting over many years. Capital expenditure is funded from grants, borrowings and operating expenditures and surpluses.

Capital Expenditure 2009/10



CAPITAL EXPENDITURE

Capital Expenditure – Funding Sources 2008/09 - 2009/10						
Details	Actual	Original Budget	Adjustment	Actual	Adjustment to	Actual to AB
R' 000						
Source of finance						
External loans	951,050	1,100,000	2,900,000	2,923,743	165.79%	0.82%
Public contributions and donations						
Grants and subsidies	2,206,655	1,574,058	1,681,894	2,087,290	32.61%	24.10%
Total	5,987,764	4,589,704	5,225,175	6,507,907	41.79%	24.55%
Percentage of finance						
External loans	15.9%	24.0%	55.5%	44.9%	87.08%	-19.10%
Public contributions and donations					#DIV/0!	#DIV/0!
Grants and subsidies	36.9%	34.3%	32.2%	32.1%	-6.41%	-0.25%
Other	47.2%	41.7%	12.3%	23.0%	-44.84%	86.99%
Capital expenditure						
Water and sanitation	1,773,079	1,601,842	1,565,780	2,157,197	34.67%	37.77%
Electricity	561,854	864,842	864,842	583,238	-21.00%	-21.00%
Housing	302,721	257,690	257,690	236,177	-8.35%	-8.35%
Roads and storm water	1,124,221	371,458	371,458	1,329,107	257.81%	257.81%
Other	2,225,889	1,493,872	2,165,405	2,102,188	40.72%	-2.92%
Total	5,987,764	4,589,704	5,225,175	6,507,907	13.45%	41.79%
Percentage of expenditure						
Water and sanitation	29.6%	35.0%	29.9%	33.2%		
Electricity	9.4%	18.8%	16.5%	10.5%		
Housing	5.1%	5.6%	5.0%	2.1%		
Roads and storm water	18.8%	8.1%	7.1%	22.0%		
Other	37.1%	32.5%	41.5%	32.2%		

CAPITAL SPENDING ON FIVE LARGEST PROJECTS

Capital Expenditure on five largest projects*						R' 000
Name of Project	Current Year			Variance Current Year		Adjustment variance (%)
	Original Budget	Adjustment Budget	Actual Expenditure	Original Variance (%)		
A - Replacement AC Water Mains	550,000	661,084	995,090	81%		51%
B - Stadium	465,393	465,393	568,552	22%		22%
C - Western Aqueduct	210,000	150,000	157,623	-25%		5%
D - Kings Park Precinct	113,951	123,951	151,359	33%		22%
E - Beach Upgrades	35,000	184,800	277,198	392%		50%
* Projects with the highest capital expenditure in 2009/10						

Name of Project - A	Replacement of AC Water Mains
Objective of Project	To replace aged water infrastructure which has reached the end of its economic life.
Delays	NIL
Future Challenges	Sourcing adequate funding to maintain or replace Municipal assets.
Anticipated citizen benefits	More reliable water supply. Reduction in water loss. Tariff increases limited.

Name of Project - B	Moses Mabhida Stadium
Objective of Project	Build a world class sporting facility.
Delays	None
Future Challenges	Ongoing management and maintenance of facility.
Anticipated citizen benefits	Economic opportunities; enhanced recreational and tourism asset.

Name of Project - C	Western Aqueduct
Objective of Project	Bulk water supply to Western and Northern areas of eThekweni.
Delays	Phase 1 – nil; Phase 2 – award of tender (6 months).
Future Challenges	

Chapter 5: Financial Performance (Part 3

Anticipated citizen benefits	An assured supply of potable water.
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Name of Project - D	Kings Park Precinct
Objective of Project	Provide suitable pedestrianised access and recreational environment on approaches to new MM stadium – linking CBD, rail stations and beachfront to stadium.
Delays	Also some works delayed till after 2010 World Cup to mitigate potential damage.
Future Challenges	Maintenance of environment quality. Extension of pedestrian linkages to other parts of the city.
Anticipated citizen benefits	Access to key city recreational facility and environment by all. Promotion of soccer and sport city. Recreational space for CBD.

Name of Project - E	Beach upgrades.
Objective of Project	Rejuvenate city's primary recreational and tourism asset.
Delays	None
Future Challenges	Funding, ongoing management of facilities and social issues.
Anticipated citizen benefits	Economic opportunities, enhanced recreational and tourism asset.

BASIC SERVICE AND INFRASTRUCTURE BACKLOGS – OVERVIEW**Introduction**

During the year the Municipality developed a Single Consumer Unit Base to ensure that all service departments report their backlogs off the same base. At the same time, a new count of dwellings was undertaken, which has led to a dramatic increase in the housing backlog from figures quoted in earlier years. Although some of this is likely due to in-migration as a result of eThekweni's good reputation in the service delivery field as well as the de-densification of households leading to smaller household sizes, this ought also to be seen as a calibration issue with a single methodology being applied that is agreed by all service departments. The backlog of housing of 365 000 units represents a massive financial backlog (in the order of R50-60-billion) and the Municipality is doing financial modelling using the Municipal Service Finance Model to develop workable scenarios. Sanitation and electricity delivery is likely to increase quite dramatically with the rollout of ablution blocks and household connections to informal settlements. However, this programme is currently constrained by available funding.

Service Backlogs as at 30 June 2010				
	Households (HHs)			
	*Service level above minimum standard		**Service level below minimum standard	
	No. HHs	% HHs	No. HHs	% HHs
Water	831579	92%	71983	8%
Sanitation	764993	75%	138569	25%
Electricity	670338	73%	233224	27%
Waste management	903562	100%	0	0%
Housing	538113	60%	365449	40%
% HHs are the service above/below minimum standard as a proportion of total HHs.				
'Housing' refers to * formal and ** informal settlements.				

Municipal Infrastructure Grant (MIG)* Expenditure 2009/10 on Service backlogs						R' 000
Details	Budget	Adjustments Budget	Actual	Variance		Major conditions applied by donor (continue below if necessary)
				Budget	Adjustments Budget	
Infrastructure - Road transport				%	%	
<i>Roads, Pavements & Bridges</i>	44100	44100	44100	0.00	0.00	
<i>Storm water</i>	2073	2073	2073	0.00	0.00	
Infrastructure - Water						
<i>Dams & Reservoirs</i>						
<i>Water purification</i>	133650	133650	133650	0.00	0.00	
<i>Reticulation</i>						
Infrastructure - Sanitation						
<i>Reticulation</i>	203802	203802	203802	0.00	0.00	
<i>Sewerage purification</i>						
Infrastructure - Other						
<i>Waste Management</i>	5400	5400	5400	0.00	0.00	
Other Specify:						
<i>Other units – Various</i>	141665	141665	127526	-11.09	-11.09	
Total	530690	530690	516551	-11.09	-11.09	

* MIG is a government grant programme designed to fund a reduction in service backlogs, mainly: Water; Sanitation; Roads; Electricity. Expenditure on new, upgraded and renewed infrastructure is set out in Appendix M; note also the calculation of the variation. Variances are calculated by dividing the difference between actual and original/adjustments budget by the actual.

Comment on backlogs

As per eThekweni's 2010/11 Performance Framework Document, plans are in place to reduce our backlogs by providing access roads and other basic services to informal settlements that are scheduled for an upgrade in the coming financial years. Communal ablution blocks are also being installed in most informal settlements, providing clean water and sanitation.

eThekweni remains proud of its excellence in infrastructure delivery. Its performance rests on well-functioning delivery teams within line departments as well as a dedicated, cross-sectoral team of professionals operating collectively in a number of critical processes. The City continues to lead the way in exploring new approaches to the design and delivery of sustainable infrastructure.

CASH FLOW

Cash Flow Outcomes					R'000
Description	2008/2009	Current year 2009/2010			Actual
	Audited Outcome	Original Budget	Adjusted Budget		
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts					
Ratepayers and other	10,909,663	14,446,110	14,104,282	14,214,138	
Government - operating	1,280,393	1,362,709	1,406,233	726,938	
Government - capital	2,274,984	2,435,058	2,458,677	2,087,290	
Interest	689,426	426,814	426,814	399,211	
Dividends					
Payments					
Suppliers and employees	(10,996,822)	(13,104,370)	(14,577,013)	(14,130,005)	
Finance charges	(685,484)	(707,476)	(707,476)	(585,867)	
Transfers and Grants	(93,254)	(176,194)	(176,072)	(149,977)	
NET CASH FROM/(USED) OPERATING ACTIVITIES	3,378,906	4,682,651	2,935,445	2,561,728	
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts					
Proceeds on disposal of PPE	56,093	20,800	20,799	73,672	
Decrease (Increase) in non-current debtors	13,029	(19,144)		5,198	
Decrease (Increase) other non-current receivables	12,402	(56,694)	20,194	(23,682)	
Decrease (Increase) in non-current investments	1,700,444	(3,592)	261,277	2,384,414	
Payments					
Capital assets	(5,995,518)	(5,450,704)	(5,781,364)	(6,449,065)	
NET CASH FROM/(USED) INVESTING ACTIVITIES	(4,213,550)	(5,509,334)	(5,479,094)	(4,009,463)	
CASH FLOWS FROM FINANCING ACTIVITIES					
Receipts					
Short-term loans					
Borrowing long term/refinancing	1,050,000	1,100,000	2,900,000	2,900,000	
Increase (decrease) in consumer deposits		70,056	99,662		
Payments					
Repayment of borrowing	(302,463)	(300,910)	(309,336)	(295,635)	

Chapter 5: Financial Performance (Part 3)

NET CASH FROM / (USED) FINANCING ACTIVITIES	747,537	869,146	2,690,326	2,604,365
NET INCREASE / (DECREASE) IN CASH HELD	(87,107)	42,463	146,677	1,156,630
Cash/cash equivalents at the year begin:	371,340	4,471,280	2,688,026	284,233
Cash/cash equivalents at the year end:	284,233	4,513,743	2,834,703	1,440,863
Source: MBRR SA7	759.1			

BORROWING AND INVESTMENTS

Introduction

Borrowings

The eThekweni Municipality's strategy is to borrow long-term funds at the lowest possible interest rates at minimum risk, within the parameters of authorised borrowings, by estimating its borrowing requirements in three-year periods coinciding with the MTREF forecast years. The Municipality will only borrow to finance capital expenditure on infrastructure, property, plant and equipment. By calculating borrowing requirements in the three year periods, the Municipality has the flexibility to either take out a loan for the full amount at the inception of the period or in appropriate tranches during the three-year period, depending on market conditions.

With financial markets still suffering the effects of the sub-prime crisis, borrowers are being subjected to increasingly stringent credit assessments and borrowing spreads have increased to higher levels than those of pre-recession days – for example: 200 to 250 basis points (bps) over benchmark as compared to 100 to 150 bps previously. Due to its investment grade credit rating, the eThekweni Municipality has been able to secure vanilla loans at interest rates which are well below current market averages.

The eThekweni Municipality is careful that any borrowing of a long-term nature is sustainable and affordable. These values are entrenched in the Municipality's Integrated Development Plan and the Borrowing Policy.

The very significant capital expenditure that was incurred, inter alia, with the 2009/2010 FIFA World Cup necessitated borrowings of R 2.9-billion as follows:

Financial Institution	Loan Amount R m	Fixed Interest Rate %	Duration in Years
DBSA	900	8.3	20
Nedbank	500	10.09	7
Nedbank	500	9.21	5
RMB	1,000	10.28	15
TOTAL	2,900		

revenue generated actual for the current and forecast for the next two financial years is as follows:

2009/2010 %	2010/2011 %	2011/2012 %
45.8	49.3	47.4

The norm used by the credit rating agency is 40%. However, the National Treasury has encouraged metros to increase their borrowings to result in a gearing ratio closer to 50%. The utilisation of internal funds enables the Municipality to reduce its reliance on external debt financing, especially when interest rates are high, thereby allowing it to only borrow funds from external sources when favourable market conditions prevail.

As part of its borrowing strategy for the future, the eThekweni Municipality will:

- Increase its gearing by maximising its borrowings by utilising the national government grants which are to be pledged as secure revenue streams to meet loan repayments obligations.
- Issue a Domestic Medium Term Note Programme in terms of which bond/bonds will be issued at appropriate stages during the programme. A bond with a medium- to long-term duration could take advantage of short-term volatility in the market.

Investments

Investments made with the various financial institutions are strictly in compliance with Municipal Finance Management Act and investments regulations.

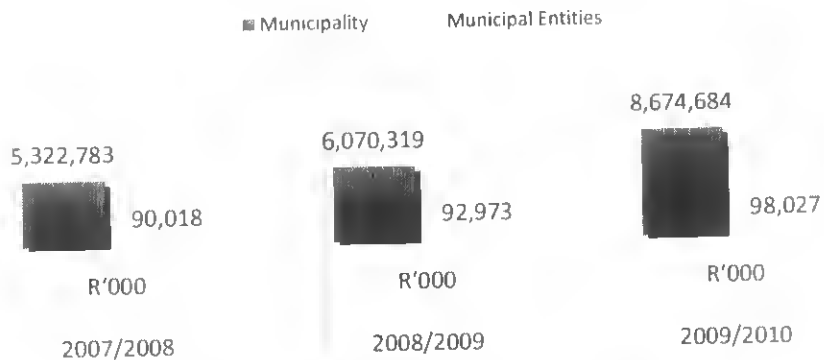
	30-Jun-09 %	30-Jun-10 %
Average rate of return on investments	12.1	9.96

The Municipality, through its prudent investment policies, has been in a position to generate above market-related returns on its investments, ensuring at all times the safety of capital with the lowest possible risk.

The use of internal funds to finance a large component of capital expenditure resulted in a significant decline in cash holdings during late 2009. Although this was a deliberate strategy to utilise internal funds to finance infrastructure spend, it was in the light of low interest rates on investments and significantly

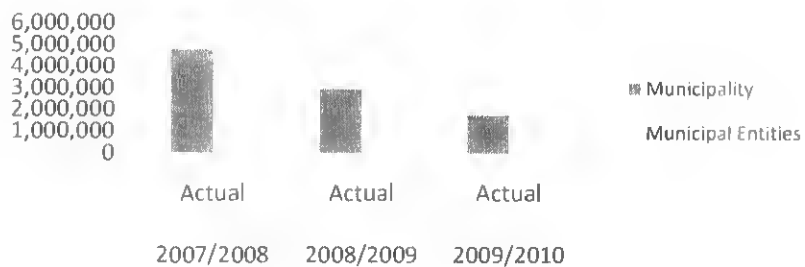
Actual Borrowings 2007/08 - 2009/10			
			R' 000
Instrument	2007/2008 8	2008/2009 9	2009/2010
	R'000	R'000	R'000
Municipality			
Long-term loans (annuity / reducing balance)	5,285,135	6,047,119	8,651,684
Long-term loans (non-annuity)	23,000	23,000	23,000
Local registered stock	14,645	200	200
Municipality	5,322,783	6,070,319	8,674,684
Municipal Entities			
Long-term loans (annuity / reducing balance)	9,208	5,580	4,934
Long-term loans (non-annuity)	717	800	0
Local registered stock	80,093	86,593	93,093
Municipal Entities	90,018	92,973	98,027
Total Loans	5,412,801	6,163,292	8,772,711
Entities Total			

Borrowings



Municipal and Entity Investments			
R' 000			
Investment* type	2007/2008	2008/2009	2009/2010
	Actual	Actual	Actual
Municipality			
Listed Corporate Bonds	8,546	3,793	0
Deposits - Bank	4,762,502	2,944,650	1,730,751
Sinking Fund	19,215	20,679	27,044
Municipality	4,790,263	2,969,122	1,757,795
Municipal Entities			
Deposits - Bank	105,625	114,790	91,947
Municipal Entities	105,625	114,790	91,947
Consolidated totals	4,895,888	3,083,912	1,849,742

Investments



COMMENT ON BORROWING AND INVESTMENTS

Borrowings

From the graph it is evident that total new loans increased by R2.9-billion. Included in the new loans is an amount of R900m relating to final drawdown of the DBSA phase 7 loan. In addition, R1bn was sourced from Nedbank to fund the replacement of motor fleet, refuse trucks and buses. Furthermore, an amount of R1-billion was sourced from Rand Merchant Bank to fund the replacement of water pipes and for the Western Aqueduct. The higher debt burden saw gross gearing ratio increase from 36% in 2009 to 46% in 2010. An analysis of the composition of borrowings reveals that R5.2-billion (60%) of the loans are sourced from DBSA.

Investments

The use of internal reserves to fund a major component of capital expenditure saw investments reduce in 2010 to R1.7-billion from R 2.9-billion in 2009. This resulted in the level of days cash on hand decreasing in 2010 to 42 days, compared to 83 days cash on hand in 2009.

OTHER FINANCIAL MATTERS

SUPPLY CHAIN MANAGEMENT (SCM)

The Municipal Financial Management Act (MFMA) requires, that the supply chain management policy of a municipality or municipal entity must be fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework.

The points below cover an assessment of implementation in respect of this requirement as well as a list of critical implementation challenges that face the eThekweni Municipality.

Approval of the SCM policy and implementation

The SCM Policy was approved by the Executive Committee on Monday 19 September 2005 and adopted by full Council on 22 September 2005 for implementation on 1 October 2005.

Organisational structure

The Municipality has an existing Supply Chain Management Unit, which is under the supervision of the Deputy City Manager: Procurement & Infrastructure Cluster. This arrangement was created with service delivery in mind as this cluster spends more than 80% of the Municipality's capital budget.

The current structure is deemed to be functional in that it does cater for most SCM requirements.

Organogram amendments are currently being revised in line with the SCM Excellence Project currently under way.

Bid committees and structures

The three Bid Committees, as outlined in the SCM regulations, are all in place with effect from August 2004. All committees are appointed and functioning in terms of the SCM regulations. Over and above those three committees, there is an Appeal Authority which is made up of the Accounting Officer advised by the CFO and Head: Legal Services.

These committees exclude councillors, as per Section 117 of the MFMA, who also have terms of reference as well as check lists to guide their functioning and behaviour.

Training

Training is an ongoing process. In house pre-implementation and post-implementation workshops have been conducted with relevant stakeholders. This will continue during the implementation period until all stakeholders are conversant with the requirements of the SCM regulations and the required competence levels prescribed for SCM Practitioners.

With regard to formal accredited training, several SCM practitioners and Bid Committee Members have been trained through the South African Management Development Institute (SAMDI). Professional development of staff is under way in the form of Assisted Education, and other SCM-specific training, in terms of the Unit's WSP and Talent Management programme.

All SCM Senior Management meet the minimum competency levels required for higher education qualification and work-related experience.

Delegations

The Legal Services Unit and the SCM Unit have compiled draft delegations. These are being reviewed to ensure alignment to the approved SCM policy, and once completed, will then be communicated to stakeholders.

Database

The Municipality has a supplier database, which meets most of the requirements of the SCM regulations. The Municipality will continue to use it, as per the provisions of the regulations. It is the intention of the Municipality to keep its database, as our registration requirements and accreditation processes are deemed to be very stringent.

A key element of the database is the ability to view brief company profiles via the internet (link <http://fplite.durban.gov.za/>), which makes it easier to detect "fronting".

A further process is under way to increase the credibility of the information contained within this database to ensure that it is used as the central supplier database within the eThekweni Municipality. Improvements have been undertaken to the application forms for registration on the database. These are to allow for declarations of interest and municipal fees to be captured at the time of registration, which will reduce the administrative burden on tenderers.

Bid documents, processes and procedures

The Municipality has revised its documentation, processes and procedures to be in line with SCM regulations as well as National Treasury guidelines. The revised documents together with revised processes and procedures coincided with the 1 October 2005 implementation date of the policy.

These will be reviewed regularly to cater for changing circumstances and continual improvement, and it is planned to eventually setup a catalogue of standard documents on the Municipality's intranet system.

Audit

The City has not received a qualified audit.

Some SCM implementation challenges

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1. Clause 14 – Lists of accredited prospective providers

A SCM policy must instruct the accounting officer to keep list of accredited prospective providers. Invite prospective providers to apply for evaluation through newspapers, municipality websites etc., specify the listing criteria. Disallow the listing of any provider, prohibited from doing business with the public sector, list to be updated quarterly. List must be compiled per commodity.

Definition of 'accredited'. This term needs to be further defined in terms of what constitutes full accreditation, for example, desktop evaluation, assessment by verifying the BEE or preference points status of firms, or doing a full skills or competencies audit per commodity and type of service as well, and whether the persons or organisations undertaking these assessments need to be fully accredited and competent in the first instance.

It has been included in our policy document that "(4) No bids or quotations may be solicited from any supplier/service provider/contractor who is not registered and verified by the appropriate branch on the SCM Unit's Supplier Database, or is in a position to be so before the award."

Commodity and type of service: These need to be standardised across all organs of state as benchmarking, cross-referencing, linking, etc will be impossible.

No clear definitions or guidance has been provided from National Treasury despite the requests made for such.

2. Clause 22(1) (a) (iii) – Public invitation for competitive bids

The requirements of the Construction Industry Development Board, in the case of a bid relating to construction, upgrading or refurbishment of buildings or infrastructure.

The eThekweni Municipality is one of the strictest enforcers of the CIDB Act in terms of the Register of Contractors. The implementation, however, has highlighted some practical challenges to empowerment, in particular in that large companies can effectively tender against smaller companies, but not the other way around. An option around this is to limit companies only within the required range to tender, which is implementable provided a comprehensive procurement schedule is produced by the Municipality to ensure that the opportunities are spread across all ranges.

3. Clause 38 – Combating abuse of SCM system

A SCM Policy must enable the accounting officer to: take appropriate steps against such official, report any alleged criminal conduct to the SAPS. To check the National Treasury's database prior to awarding any contract. To reject any bid from a bidder. To reject a recommendation. To cancel a contract awarded to any person if any fraud or corruption was committed by themselves, officials or other role players during bidding process or execution of that contract. Reject any bid if the bidder or its directors has abused the SCM; convicted of fraud, failed to comply with any municipal contract, listed for Tender Defaulters.

The rejection of bids from a bidder who failed to perform satisfactorily on a previous contract with an organ of state appears too onerous and against the developmental agenda – "One strike and you're out".

Rejection of bids from bidders whose municipal rates and taxes or municipal service charges are in arrears for more than three months. This is especially onerous for quotations as it would be necessary to undertake monthly checks and clearances. The facility to comply does exist at present within the eThekweni Municipality with regard to Municipal Accounts. There has, however, not been any further development to cater for these for other municipalities.

The National Treasury's database Clause 14 & 38. It is all well and fine disallowing companies listed on this database as a person prohibited from doing business with the public sector, but how do municipalities ensure that this is undertaken without the database being available, easy to access, or even one shared/central database across all organs of state?

A new blacklisting policy is to be drafted and brought for Committee and Council approval. Hence, this clause has been omitted from our SCM Policy.

4 Clause 44 – Awards to persons in the service of the state

Difficult to manage as no systems are in place as yet. Circulars have been issued to increase awareness of these clauses.

Heavy reliance is made on tenderers to disclose such when submitting tenders. The database registration forms have been amended to include these declarations.

5 Clause 45 – Awards to close members of persons in the service of the state

Difficult to manage as no systems are in place as yet. Circulars have been issued to increase awareness of these clauses.

Heavy reliance is made on tenderers to disclose such when submitting tenders. The database registration forms have been amended to include these declarations.

GRAP COMPLIANCE

GRAP is the acronym for **Generally Recognised Accounting Practice** and it provides the rules by which municipalities are required to maintain their financial accounts.

S122 of the Municipal Finance Management Act requires municipalities to prepare their annual financial statements based on the GRAP accounting framework.

The eThekweni Municipality adopted the GRAP accounting framework with effect from the 2005 Financial year.

The current year financial statements have been prepared in accordance with the standards of GRAP. The annual financial statements have been prepared on the historical cost basis.

Accounting policies for material transactions, events or conditions not covered by the GRAP standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such statements issued by the Accounting Practices Board.

A summary of the significant accounting policies are disclosed in the annual financial statements. These accounting policies are consistent with the previous year, unless otherwise stated.